



KOBELCO

Investor Meeting FY2016



**April 28, 2017
KOBE STEEL, LTD.**



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ECOWAY

1. Financial Results for FY2016

Financial Results for FY2016

(Billions of yen)

	FY2015	FY2016		Change	
	Actual ①	Forecast ②	Actual ③	③-①	③-②
Net Sales	1,822.8	1,690.0	1,695.8	△126.9	+5.8
Operating Income	68.4	5.0	9.7	△58.6	+4.7
Ordinary Income	28.9	△30.0	△19.1	△48.0	+10.9
(Excluding inventory valuation)	(46.9)	(△29.5)	(△15.6)	(△62.5)	(+13.9)
Extraordinary Income	△39.5	0.0	8.1	+47.6	+8.1
Net Income Attributable to Owners of the Parent	△21.5	△40.0	△23.0	△1.4	+17.0



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Net Sales by Segment

(Billions of yen)

Net Sales	FY2015	FY2016		Change	
	Actual ①	Forecast ②	Actual ③	③-①	③-②
Iron & Steel	665.8	615.0	620.6	△45.1	+5.6
Welding	92.2	81.0	82.2	△9.9	+1.2
Aluminum & Copper	345.4	320.0	323.3	△22.1	+3.3
Machinery	159.0	153.0	150.7	△8.2	△2.3
Engineering	131.7	123.0	121.1	△10.5	△1.9
Construction Machinery	336.2	300.0	310.4	△25.7	+10.4
Electric Power	76.7	72.0	70.6	△6.1	△1.4
Other Businesses	74.5	75.0	74.8	+0.3	△0.2
Adjustment	△58.9	△49.0	△ 58.2	+0.7	△9.2
Total	1,822.8	1,690.0	1,695.8	△126.9	+5.8

Ordinary Income (Loss) by Segment

(Billions of yen)

Ordinary Income	FY2015	FY2016		Change	
	Actual ①	Forecast ②	Actual ③	③-①	③-②
Iron & Steel	△14.9	△30.0	△ 29.5	△14.5	+0.5
Welding	8.1	6.5	6.8	△1.2	+0.3
Aluminum & Copper	15.1	11.0	12.0	△3.1	+1.0
Machinery	6.7	5.0	5.8	△0.8	+0.8
Engineering	4.6	1.0	2.8	△1.8	+1.8
Construction Machinery	△11.9	△34.0	△ 31.3	△19.4	+2.7
Electric Power	17.4	13.5	13.0	△4.3	△0.5
Other Businesses	7.3	7.0	7.6	+0.2	+0.6
Adjustment	△3.6	△10.0	△ 6.4	△2.7	+3.6
Total	28.9	△30.0	△19.1	△48.0	+10.9



2. Forecast for FY2017



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Forecast for FY2017

(Billions of yen)

	FY2016			FY2017			Change
	1H	2H	Full year ①	1H	2H	Full year ②	②-①
Net Sales	815.1	880.7	1,695.8	930.0	940.0	1,870.0	+174.2
Operating Income	30.9	△21.2	9.7	35.0	40.0	75.0	+65.3
Ordinary Income	12.3	△31.4	△19.1	20.0	30.0	50.0	+69.1
(Excluding inventory valuation)	(23.8)	(△39.4)	(△15.6)	(14.5)	(36.0)	(50.5)	(+66.1)
Extraordinary Income	0.0	8.1	8.1	0.0	0.0	0.0	△8.1
Net Income Attributable to Owners of the Parent	4.1	△27.1	△23.0	15.0	15.0	30.0	+53.0



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Net Sales by Segment

(Billions of yen)

Net Sales	FY2016			FY2017			Change ② - ①
	1H	2H	Full year ①	1H	2H	Full year ②	
Iron & Steel	290.3	330.2	620.6	355.0	340.0	695.0	+ 74.4
Welding	42.2	39.9	82.2	38.0	39.0	77.0	△5.2
Aluminum & Copper	162.9	160.3	323.3	175.0	170.0	345.0	+ 21.7
Machinery	72.0	78.7	150.7	80.0	94.0	174.0	+ 23.3
Engineering	49.5	71.5	121.1	54.0	80.0	134.0	+ 12.9
Construction Machinery	156.1	154.3	310.4	180.0	155.0	335.0	+ 24.6
Electric Power	35.5	35.0	70.6	32.0	39.0	71.0	+ 0.4
Other Businesses	31.2	43.5	74.8	33.0	43.0	76.0	+ 1.2
Adjustment	△25.0	△33.2	△58.2	△ 17.0	△ 20.0	△ 37.0	+ 21.2
Total	815.1	880.7	1,695.8	930.0	940.0	1,870.0	+ 174.2



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Ordinary Income (Loss) by Segment

(Billions of yen)

Ordinary Income	FY2016			FY2017			Change ② - ①
	1H	2H	Full year ①	1H	2H	Full year ②	
Iron & Steel	△9.8	△19.7	△29.5	10.0	5.0	15.0	+44.5
Welding	3.8	3.0	6.8	2.0	3.0	5.0	△1.8
Aluminum & Copper	6.5	5.4	12.0	8.0	7.0	15.0	+3.0
Machinery	3.7	2.1	5.8	1.0	4.0	5.0	△0.8
Engineering	0.0	2.7	2.8	△1.5	4.5	3.0	+0.2
Construction Machinery	△0.5	△30.8	△31.3	6.5	2.5	9.0	+40.3
Electric Power	8.3	4.7	13.0	0.0	3.0	3.0	△10.0
Other Businesses	2.0	5.5	7.6	1.5	3.5	5.0	△2.6
Adjustment	△1.8	△4.6	△6.4	△7.5	△2.5	△10.0	△3.6
Total	12.3	△31.4	△19.1	20.0	30.0	50.0	+69.1



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【Iron & Steel】

(Billions of yen)

	FY2016			FY2017			Change ②-①
	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	290.3	330.2	620.6	355.0	340.0	695.0	+74.4
Ordinary Income	△9.8	△19.7	△29.5	10.0	5.0	15.0	+44.5
(Inventory valuation)	(△7.5)	(9.5)	(2.0)	(4.5)	(△6.5)	(△2.0)	(△4.0)

FY2017

- The sales volume of steel products is anticipated to be higher than the previous year due to firm demand in the automotive and construction sectors.
- We plan to return to profitability owing to no effect from the relining of a blast furnace in Kakogawa Works, improvement of margins, and cost reduction including additional measures to improve profitability.
(Please see the next page for details on profitability.)
- Consolidation of upstream operations will be completed this November as planned.



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【Steel Business】 Strengthening Profitability

(In billions of yen)

FY16⇒FY17: Main factors of cost changes

Relining of a blast furnace	+12.0
Consolidation of upstream operations	+ 6.5
Additional measures to improve profitability	+ 9.0
Others	△ 1.5

Total +26.0

Consolidation of upstream operations

(Impact from improved profitability + 15 billion yen/year)

Start-up of related equipment is progressing as planned. Consolidation will be completed this Nov.

FY2017 **+ 6.5** (forecast)

FY2018 + 15.0 (plan)

※Comparison with FY2015

Additional measures to improve profitability

(Impact from improved profitability + 30 billion yen/year)

Capital investment and cost, cuts at the production level, and improved raw materials cost are progressing smoothly.

FY2016 **+ 8.5** (actual)

FY2017 + 17.5 (forecast) **+9.0**

FY2020 + 30 (plan)

※Comparison with FY2015

Margin and product mix

Production & shipments	△19.5
Raw material prices	△12.0
Exchange rate changes	+1.0

FY2015

FY2016

FY2017

△14.9

△30.5

Inventories valuation
+16.5

△2.5
Overall costs

Others
+2.0

△29.5

+22.5

Inventory valuation
△40

Overall costs reduction
+23.0

Others
+3.0

15.0

Margin and product mix

Production & shipments	+66.0
Raw material prices	△39.0
Exchange rate changes	△ 4.5

FY15⇒FY16: Main factors of cost changes

Relining of a blast furnace	△12.0	} △16.0
Consolidation of upstream operations	△ 4.0	
Additional measures to improve profitability	+ 8.5	} Total △0.5
Others (subsidiaries, etc.)	+ 7.0	



ECO WAY

Production & Sales

	FY2015			FY2016			FY2017 Forecast
	1H	2H	Full year	1H	2H	Full year	Full year
Domestic crude steel production (Millions of tons)	52.1	52.1	104.2	52.6	52.6	105.2	

<Domestic steel inventory trend>

Ordinary steel products (Millions of tons)	5.8	5.5	--	5.6	5.7		
Rolled sheets (Millions of tons)	4.2	4.1	--	4.0	3.9		

<Domestic steel inventory trend>

Finished auto production (Millions of cars)	4.5	4.7	9.2	4.4	4.8	9.3	
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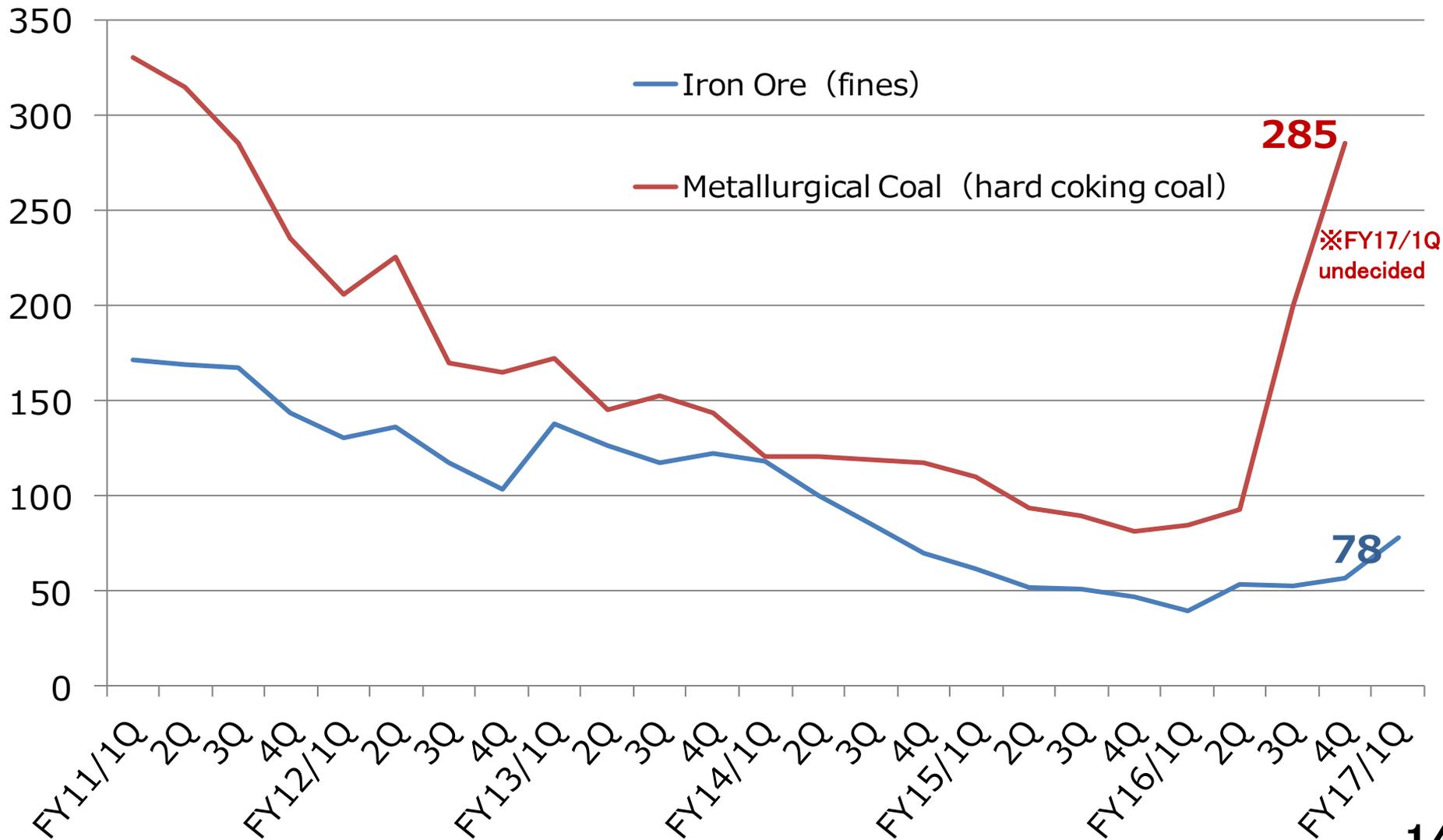
Crude steel production (Millions of tons)	3.7	3.8	7.5	3.8	3.4	7.2	about 7.6
Sales volume (Millions of tons)	3.0	3.0	6.0	2.9	3.0	5.9	about 6.2
(Domestic)	(2.0)	(2.1)	(4.1)	(2.0)	(2.2)	(4.2)	
(Exports)	(1.0)	(0.9)	(1.9)	(0.9)	(0.8)	(1.7)	
Average steel selling price (Thousands of yen/ton)	78.7	71.8	75.2	68.0	73.1	70.6	
Export ratio (value basis)	34.2%	30.0%	32.2%	29.5%	27.7%	28.6%	



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Iron Ore & Coking Coal Price Trends

(\$/ton)

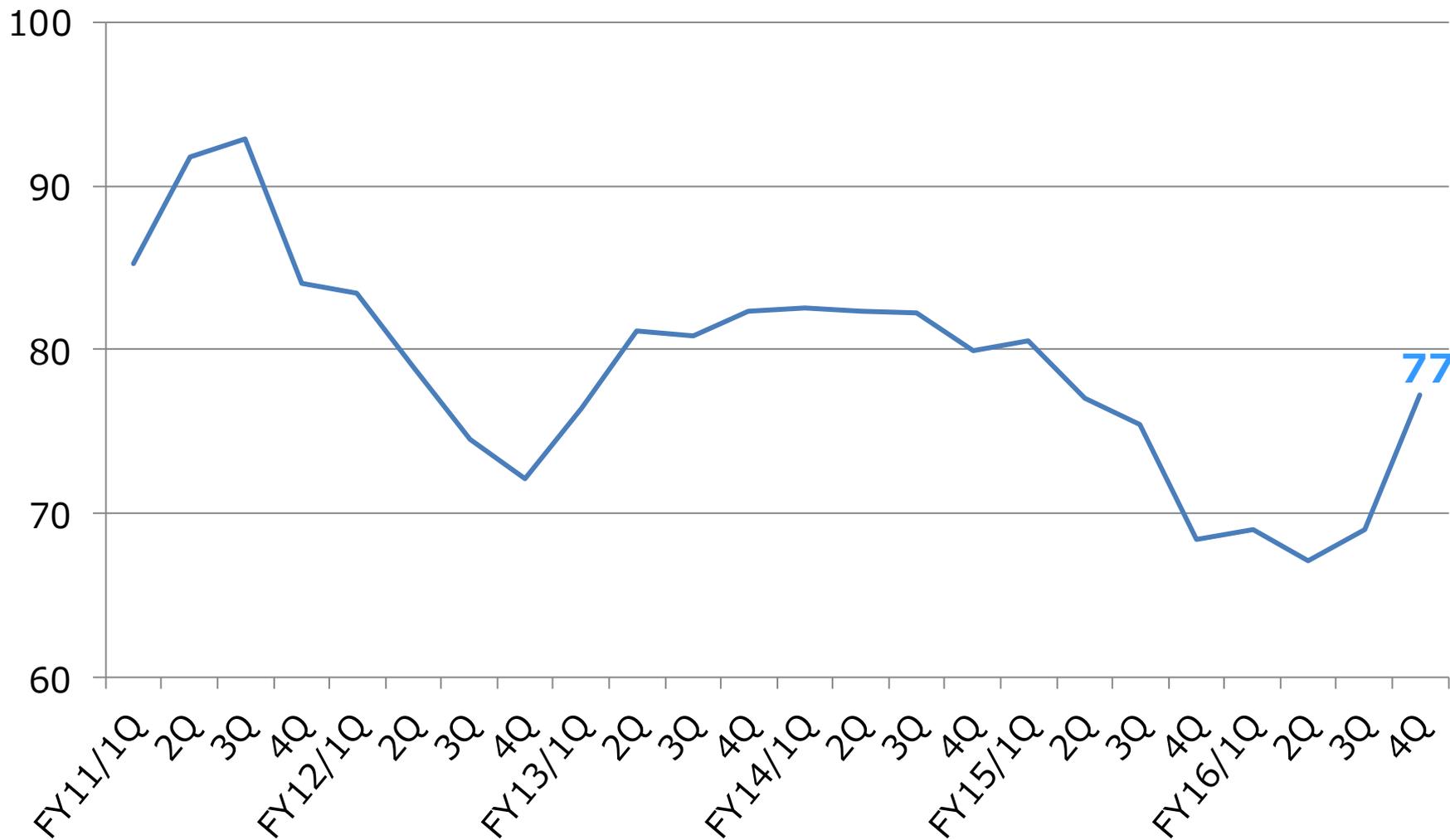




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Steel Product Price Trends at Kobe Steel

(Thousands of yen /ton)





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【Welding】

(Billions of yen)

	FY2016			FY2017			Change ② - ①
	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	42.2	39.9	82.2	38.0	39.0	77.0	△5.2
Ordinary Income	3.8	3.0	6.8	2.0	3.0	5.0	△1.8

<Sales volume of KSL Group>

(Thousands of tons)

	FY2016			FY2017 Forecast
	1H	2H	Full year	Full Year
Domestic	62	63	125	about290
Overseas	89	83	172	
Total	151	146	297	

FY2017

- Demand for welding materials for use in the overseas shipbuilding sector is on a downward trend.
- Demand for welding systems in the construction sector in Japan is expected to be lower than the previous year, which saw a high level of investment for automation.
- Although we plan to increase sales prices and reduce costs, ordinary income is anticipated to decrease.



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【Aluminum & Copper】

(Billions of yen)

	FY2016			FY2017			Change ②-①
	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	162.9	160.3	323.3	175.0	170.0	345.0	+21.7
Ordinary Income	6.5	5.4	12.0	8.0	7.0	15.0	+3.0
(Inventory valuation)	(Δ4.0)	(Δ1.5)	(Δ5.5)	(1.0)	(0.5)	(1.5)	(+ 7.0)

<Sales volume of KSL>

(Thousands of tons)

	FY2016			FY2017 Forecast
	1H	2H	Full Year	Full Year
Aluminum (Domestic)	155	136	291	About 295
Rolled Products (Exports)	31	36	68	About 85
Copper Rolled Products	71	72	143	About 143

FY2017

- We anticipate that expanded and new facilities due to higher demand for aluminum rolled products mainly in the automotive sector will increase fixed costs.
- Ordinary income is expected to improve due to higher sales of aluminum and copper rolled products, cost reduction, and inventory valuation gains from recovery in the aluminum and copper ingot market.



ECO WAY

【Machinery】

(Billions of yen)

	FY2016			FY2017			Change
	1H	2H	Full Year ①	1H	2H	Full Year ②	② - ①
Net Sales	72.0	78.7	150.7	80.0	94.0	174.0	+23.3
Ordinary Income	3.7	2.1	5.8	1.0	4.0	5.0	△0.8
Orders	55.8	72.4	128.2	—	—	about 140	about 12

FY2017

- By strengthening product competitiveness through lower costs and expanding the after-sales service business, we expect orders to increase.
- On the other hand, we anticipate ordinary income will decrease because of continued sluggish demand in energy-related sectors and deterioration of profit due to intensifying competition.



ECO WAY

【Engineering】

(Billions of yen)

	FY2016			FY2017			Change ②-①
	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	49.5	71.5	121.1	54.0	80.0	134.0	+12.9
Ordinary Income	0.0	2.7	2.8	Δ1.5	4.5	3.0	+0.2
Orders	80.6	93.6	174.2	—	—	About 100	About Δ74

FY2017

- Orders are expected to be lower than in FY2016, which saw several large orders received in the waste treatment-related business.
- On the other hand, owing to the progress of the orders, ordinary income is anticipated to be similar to the previous year.

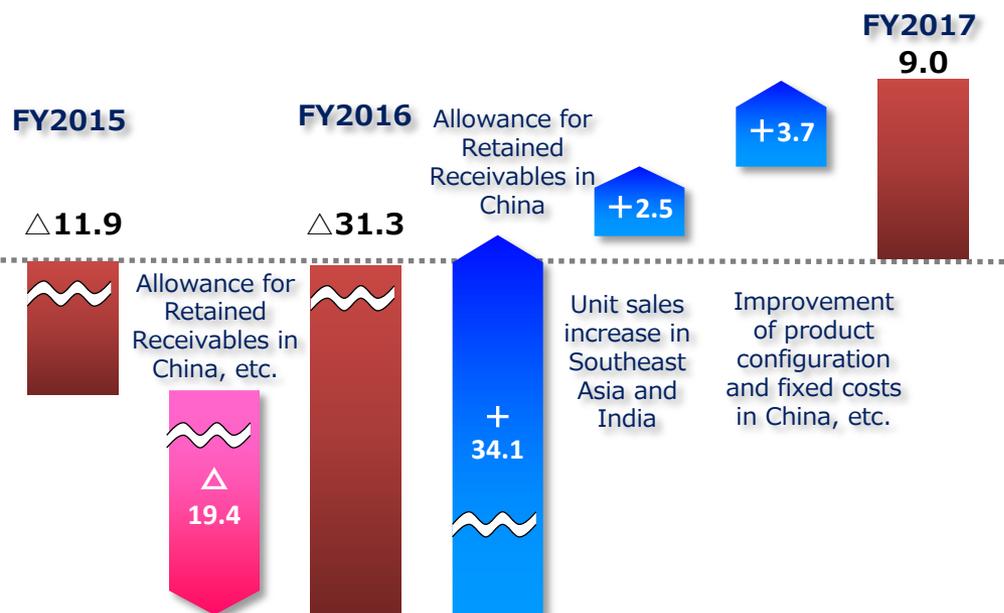


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【Construction Machinery】

(Billions of yen)

	FY2016			FY2017			Change ② - ①
	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	156.1	154.3	310.4	180.0	155.0	335.0	+ 24.6
Ordinary Income	△0.5	△30.8	△31.3	6.5	2.5	9.0	+ 40.3
(Allowance for Doubtful Accounts in China)	(3.3)	(30.8)	(34.1)	(0.0)	(0.0)	(0.0)	△34.1



FY2017

- **Additional posting of allowance for retained receivables is not expected in fiscal 2017. We aim to restore profitability in China by improving the product mix and continuing a sales policy prioritizing receivables management. (Demand for machines supplied by foreign companies is expected to be 34,000 units in fiscal 2017)**
- **Demand in infrastructure investment and the resource field is anticipated to recover in Southeast Asia and India. As such, unit sales of hydraulic excavators are expected to be higher in fiscal 2017 than fiscal 2016.**



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【Electric Power】

(Billions of yen)

	FY2016			FY2017			Change ② - ①
	1H	2H	Full Year ①	1H	2H	Full Year ②	
Net Sales	35.5	35.0	70.6	32.0	39.0	71.0	+0.4
Ordinary Income	8.3	4.7	13.0	0.0	3.0	3.0	△10.0

FY2017

- Although we will maintain stable operation of the Kobe Power Plant's Nos. 1 & 2 units, we forecast that ordinary income will decrease temporarily due a renewal of the No.1 unit's contract and anticipatory expenses of new projects, etc.

(Please see P. 41 regarding the medium- to long-term images of profitability in the Electric Power Business.)



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3 . Financial Strategy



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Financial Strategy

Basic policy

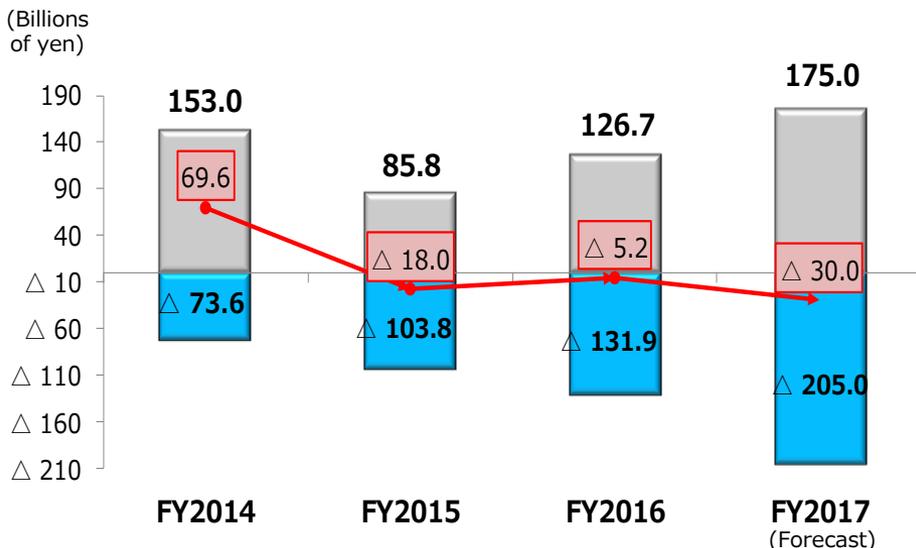
- In principle, business cash flows are used to finance large strategic investments to grow the materials and machinery businesses, as well as regular investments that support the business foundation.
- **D/E ratio 1 time or less**

Cash generation measures

- Consider and implement **cash generation measures on a scale of 100.0 billion yen** to steadily implement growth investments, while maintaining financial discipline.
- ※ Cash generation measures already implemented in FY2016:
Improve working capital 19 billion yen, asset sales 8 billion yen, etc.

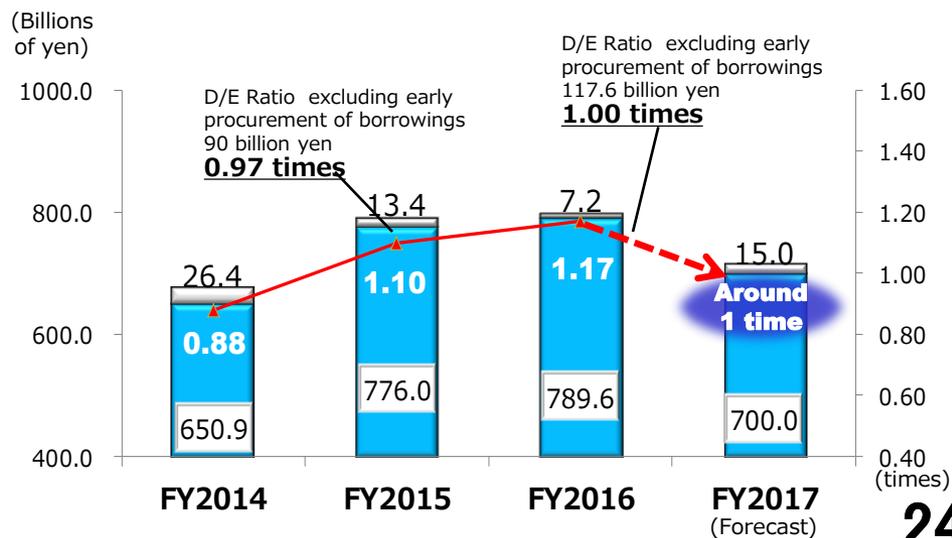
《Free cash flow》

- : Cash flows from operating activities
- : Cash flows from investing activities
- : Free cash flow



《Debt · D/E ratio》

- : Project Finance
- : Debt
- : D/E Ratio





4. Reference



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Cash Flows

(Billions of yen)

	FY2016			FY2017			Change ②-①
	1H	2H	Full year ①	1H	2H	Full year ②	
Cash Flows from Operating Activities	74.1	52.6	126.7	125.0	50.0	175.0	+48.3
Cash Flows from Investing Activities	△61.0	△70.9	△131.9	△140.0	△65.0	△205.0	△73.1
Free Cash Flow (Excluding project financing)	13.1	△18.3	△5.2	△15.0	△15.0	△30.0	△24.8
Free Cash Flow	16.5	△12.6	3.9	△15.0	△20.0	△35.0	△38.9
Cash and Deposits (Excluding project financing)	213.6	^{*1} 197.0		155.0	65.0		△132.0

*1 : Early procurement of borrowings for FY 2017 (117.6 billion yen) are included



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Capital Investment

(Billions of yen)

	FY2014	FY2015	FY2016	FY2017
Capital Investment (Accrual Basis)	103.5	109.9	160.2	135.0
Ratio of Depreciation	115%	116%	167%	129%

Capital Investment (Payment Basis)	95.3	99.1	138.9	150.0
Ratio of Depreciation	106%	105%	144%	143%

Depreciation	89.8	94.8	96.2	105.0
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Financial Indices

	FY2014	FY2015	FY2016	FY2017
ROS (※1)	5.4%	1.6%	△1.1%	2.7%
Net Income per share (※2)	238.19 yen	△59.34 yen	△63.54 yen	82.81 yen
D/E ratio (※3)	0.88	(※4) 1.10	(※5) 1.17	about1
ROA (※6)	4.4%	1.3%	0.8%	(※8) 2.2%
ROE (※7)	12.0%	△2.9%	△3.4%	(※8) 4.3%

(Billions of yen)

※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 : D/E ratio: Debt (excluding IPP project finance)/stockholders' equity (FY2015 shareholders' equity)

※4 : Includes early procurement of borrowings for FY2016 (90 billion yen)

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

※5 : Includes early procurement of borrowings for FY2017 (117.6 billion yen)

D/E ratio 1.00 times (excluding early procurement of borrowings)

※6 : ROA = Ordinary Income / Total Assets

※7 : ROE = Net Income / Equity

※8 : Annualized rate



EcoWay

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	△31.4	△ 19.1

 Δ **48.0**

Positive Factors			Negative Factors		
Inventory valuation in Iron & Steel	+	16.5	Production and shipments	△	19.5
Exchange rate changes in steel business	+	1.0	Raw material prices	△	12.0
			Overall cost	△	4.5
			Inventory valuation in Aluminum & Copper	△	2.0
			Subsidiaries & affiliates	△	22.5
			Other	△	5.0
Total	+	17.5	Total	△	65.5



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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	△19.7	△29.5

 △ **14.5**

Positive Factors			Negative Factors		
Inventory valuation	+	16.5	Production and shipments	△	19.5
Exchange rate changes	+	1.0	Raw material prices	△	12.0
Other	+	2.0	Overall cost	△	2.5
Total	+	19.5	Total	△	34.0



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Analysis of Consolidated Ordinary Income

【 FY2016 Previous Forecast (Feb. 2) ⇒ Actual 】

(Billions of yen)

	FY2016 Forecast (Feb.2)			FY2016 Actual		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income	12.3	△42.3	△30.0	12.3	△31.4	△19.1

+ 10.9

Positive Factors			Negative Factors		
Production and shipments	+	1.0	Inventory valuation in Iron & Steel	△	2.0
Raw material prices	+	1.0	Inventory valuation in Aluminum & Copper	△	1.0
Overall costs reduction	+	1.0			
Subsidiaries & affiliates	+	8.0			
Exchange rate changes in steel business	±	0.0			
Other	+	2.9			
Total	+	13.9	Total	△	3.0



ECO WAY

Analysis of Ordinary Income in Iron & Steel Segment

【 FY2016 Previous Forecast (Feb. 2) ⇒ Actual 】

(Billions of yen)

	FY2016 Forecast (Feb.2)			FY2016 Actual		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income	△9.8	△20.2	△ 30.0	△9.8	△19.7	△ 29.5

 + **0.5**

Positive Factors			Negative Factors		
Production and shipments	+	1.0	Overall costs	△	0.5
Raw material prices	+	1.0	Inventory valuation	△	2.0
Exchange rate changes	±	0.0			
Other	+	1.0			
Total	+	3.0	Total	△	2.5



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Analysis of Consolidated Ordinary Income

【 FY2016 ⇒ FY2017 Forecast 】

(Billions of yen)

	FY2016			FY2017		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income	12.3	△31.4	△19.1	20.0	30.0	50.0

 + **69.1**

Positive Factors		Negative Factors	
Production and shipments	+ 68.5	Raw material prices	△ 39.0
Overall costs reduction	+ 20.0	Inventory valuation in Iron & Steel	△ 4.0
Inventory valuation in Aluminum & Copper	+ 7.0	Exchange rate changes in steel business	△ 4.5
Subsidiaries & affiliates	+ 24.5	Other	△ 3.4
Total	+ 120.0	Total	△ 50.9



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Analysis of Ordinary Income in Iron & Steel Segment

【 FY2016 ⇒ FY2017 Current Forecast 】

(Billions of yen)

	FY2016			FY2017		
	1H	2H	Full year	1H	2H	Full year
Ordinary Income	△9.8	△19.7	△29.5	10.0	5.0	15.0

 + **44.5**

Production and shipments	+ 66.0	Raw material prices	△ 39.0
Overall costs reduction	+ 23.0	Inventory valuation	△ 4.0
Other	+ 3.0	Exchange rate changes	△ 4.5
Total	+ 92.0	Total	△ 47.5



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Growth Strategies for the Three Core Business Areas

Materials

- I Initiatives for weight savings in transportation P.37**
 - Acceleration of automotive weight savings strategy.
- II Strengthening profitability in the steel business P.12**
 - Consolidation of upstream operation at Kakogawa Works is progressing as planned
 - Additional measures to improve profitability are implemented as planned

Machinery

- I Initiatives in the fields of energy and infrastructure P.38**
 - Promoting the smooth expansion of the machinery business
- II Strengthening profitability in the construction machinery business P.39**
 - Promoting the rebuilding of the excavator business in China

Electric Power

- Initiatives aimed at stable profitability in the electric power supply business P.41**
 - Entering into new contracts for Kobe Power Plant's Nos. 1 & 2 units
 - New projects (Moka and Kobe Nos. 3 & 4 units) are progressing as planned



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[Materials] Initiatives for Weight Savings in Transportation

Establishment of new organization (Apr. 1, 2017)

- The **Automotive Solution Center** was newly organized in the Technical Development Group. It aims to strengthen a wide range of solution proposal capabilities to promote the marketing of materials that contribute to reducing the weight of cars.
- The Automotive Materials Planning Section was organized in the Corporate Planning Department. In addition to strategic planning integrating macro trends, technology, and customer trends, this section optimizes the allocation of group management resources.
- A director was newly appointed to manage these projects aimed at promoting rapid decision-making and companywide strategies for automotive weight savings.

Considerations underway for rapid implement of strategic investments of 100 billion yen

- Strengthen domestic mother plants, the source of our competitive edge
- **Capture growth in overseas markets**

The two projects below are underway.



Announced on May 9, 2016

Establishment of company for automotive aluminum extrusions and fabricated products

(Kobelco Aluminum Products & Extrusions Inc.)

- Total investment: US\$46.7 million
- Capacity: 6,000t/year
- Schedule:
 - Aug. 2016 - Construction started
 - 2H 2017 - Fabrication to begin
 - 2H 2018 - Melting to extrusion processes to commence
- **Establishing a supply network for aluminum extrusions and fabricated products covering Japan and the U.S.**



Announced on April 28, 2017

Facility Expansion for aluminum forged suspension products

(Kobelco Aluminum Automotive Products, LLC)

- Investment: about 5.8 billion yen
- Capacity: 540,000 pieces/month→970,000 pieces/month
- Schedule:
 - Summer 2017 - Plant expansion decided in 2015 to start up
 - From fall 2018 - Plant expansion decided in 2017 to start up
- **Contributes to solidifying KAAP's position as the top supplier in the North American market**





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[Machinery] Initiatives in the Fields of Energy and Infrastructure

Marketing begins for HyAC mini-A all-in-one compressor packages in US

February 2017

Kobe Steel has started marketing the HyAC mini-A all-in-one, compact compressor package for hydrogen refueling stations in the U.S.

- ◆ The footprint is 10 percent smaller than the HyAC mini sold in Japan.
- ◆ Selling it with a dispenser made by Tatsuno Corporation enables Kobe Steel to provide equipment from hydrogen compression to fueling FCVs.



Simplifies component procurement for customers and reduces onsite adjustment work

Kobe Steel acquires Swedish company Quintus Technologies

April 2017

Kobe Steel acquired Swedish company Quintus Technologies AB, the world leader in isostatic presses.

Its presses are widely applicable in the manufacture of high-performance products, such as aircraft parts, power generation turbine blades and semiconductor materials. It has achieved a strong presence in Europe and the United States primarily in the aerospace sector.

Strengthens our IP menu as a stable profit base for the Industrial Machinery Division

40 MW compressor test facility opens in April *One of the largest in the world*

April 2017

This facility is capable of conducting performance tests on nonstandard compressors with variable-speed motors of 40 MW. It enables Kobe Steel to satisfy conditions to enter the large-capacity compressor market.



Focus on capturing the Asian market, where Kobe Steel has an edge



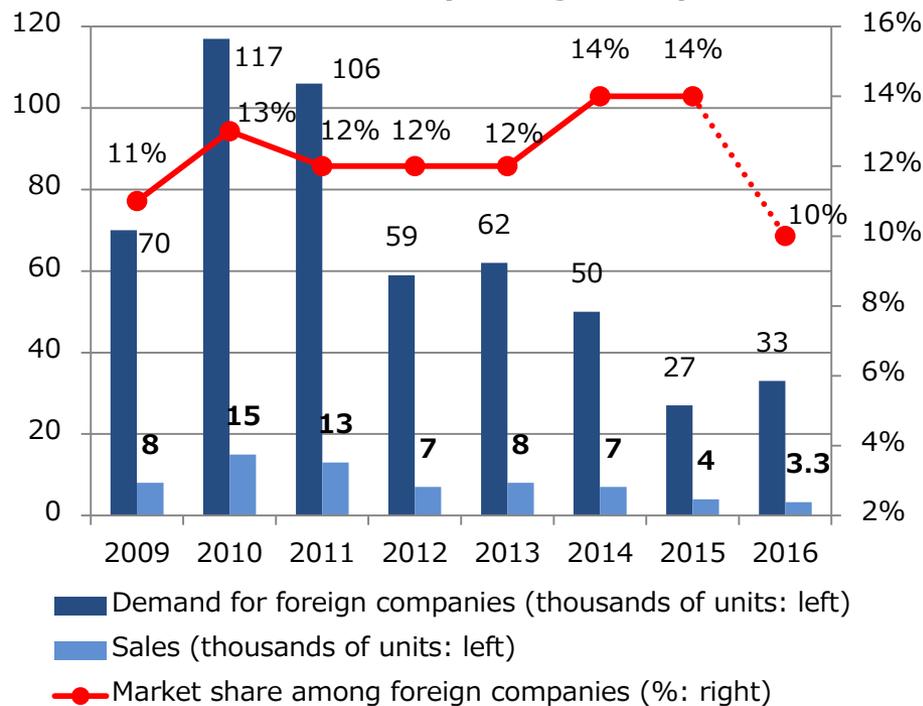
ECO WAY

[Machinery] Strengthening the Profitability of the Construction Machinery Business: Rebuilding the China Business

1. FY2016

- ✓ Market share decreased from fiscal 2015 due to priority on receivables management.
(Unit sales in FY2016: 3,264 units)
- ✓ Additional allowance for retained receivables was not posted in the fourth quarter of fiscal 2016.

■ Total demand in China, KOBELCO's unit sales and share of sales by foreign companies



■ Situation of allowance at the end of FY2016 (billion RMB/JPY)

Types of dealers	FY2016				
	Total	Balance of credit		Allowance	
		Receivable	Payment in subrogation	Balance	Ratio
Normal dealers	2.1	1.3	0.8	1.3	78%
Dealers with which contracts were terminated	1.5	0.3	1.2	1.5	
Total	3.6	1.6	2.0	2.8	
(JPY)	60.6	26.2	34.4	47.2	

Types of dealers	FY2016			
	Balance of Contingent liabilities	Allowance		
		Balance	Ratio	
Normal dealers	2.5	0.3	15%	
Dealers with which contracts were terminated	0.1	0.1		
Total	2.6	0.4		
(JPY)	43.6	7.0		



[Machinery] Strengthening the Profitability of the Construction Machinery Business: Rebuilding the China Business

2. Rebuilding the China Business

(1) Restructuring of Capital Relationship

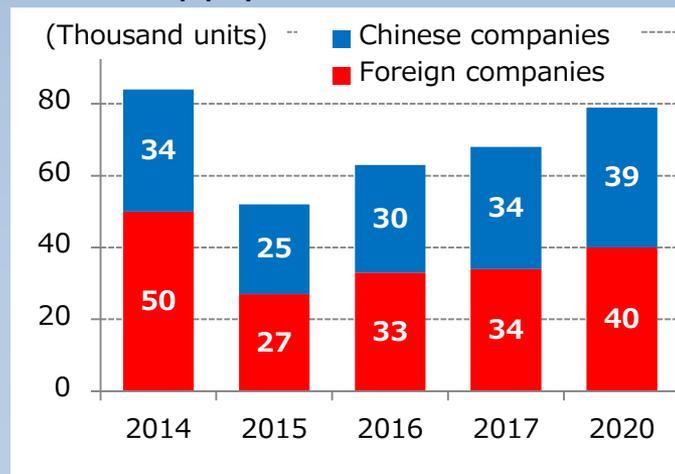
- ✓ We dissolved the JVs at the end of March 2017.
- ✓ We recorded a reversal of provision for loans for the China wheel loader business at the end of fiscal 2016 as extraordinary gains of 8.1 billion yen.

(2) Restructuring of production and sales structure

- ✓ We narrowed down the number of dealers to strengthen the sales structure.
- ✓ A financial and credit management division was established in April 2017 to strengthen credit management and monitor dealers.
- ✓ The new plan is to consolidate production at Chengdu (CKCM). Hangzhou (HKCM) will make and export complete machines and serve as a supply base for fabricated components in fiscal 2018.

(3) Overview for fiscal 2017

- ✓ While demand for infrastructure is anticipated to recover, Unit sales are expected to be similar to FY2016 due to a sales policy to prioritize receivables management.
- ✓ We aim to restore profitability in China under the new sales policy and structure.



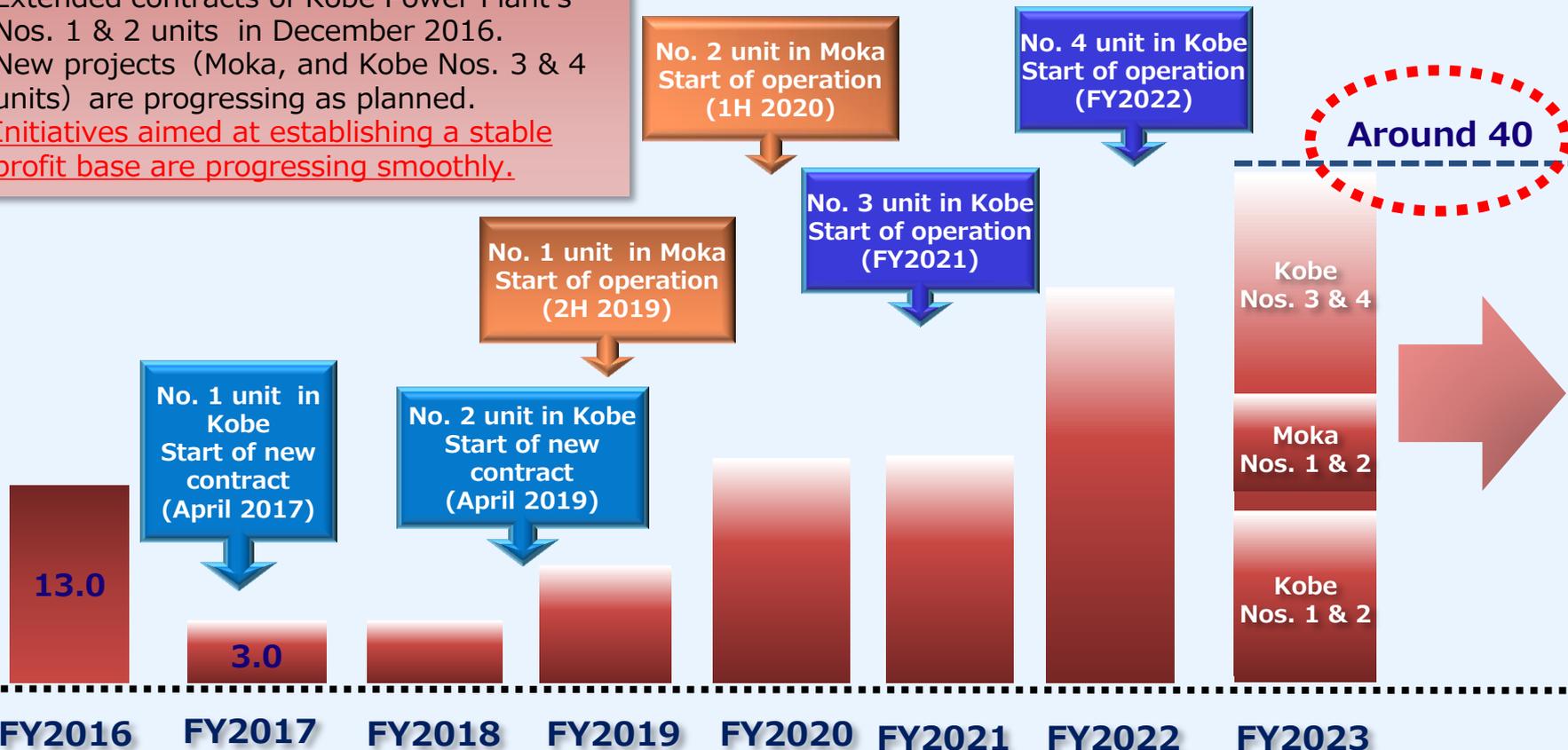


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【Electric Power】 Initiatives for Stable Profitability

- Extended contracts of Kobe Power Plant's Nos. 1 & 2 units in December 2016.
- New projects (Moka, and Kobe Nos. 3 & 4 units) are progressing as planned.
- Initiatives aimed at establishing a stable profit base are progressing smoothly.

In billions of yen



FY2016 FY2017 FY2018 FY2019 FY2020 FY2021 FY2022 FY2023

Actual

※ Image of profitability from FY2018 to FY2023

※ Image of profitability includes head office expenses of about 2-3 billion yen.

It includes anticipatory expenses and other one-time expenses until new projects are completed.



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[Materials] Initiatives for Weight Savings in Transportation

Field	Project	Country	Description	Schedule
Automotive	Joint venture to make and sell steel wire rod (Kobelco Millcon Steel Co., LTD)	Thailand	First overseas location for wire rod production. Will help meet 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	Jan. 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	Apr. 2016 Production began
	Production and sale of automotive aluminum extrusions (Kobelco Aluminum Products & Extrusions Inc.)	USA	Strengthens response to stricter fuel efficiency regulations in the U.S. Establishes supply network for aluminum extrusions and fabricated products in Japan and the U.S.	Aug. 2016 Construction began 2H 2017 Production begins
	Mass producing high-productivity, hot stamping steel sheet	—	Developed a hot stamping steel sheet with outstanding productivity during press operations. The sheet was ordered and adopted for a structural body part of the Prius, which is made by Toyota Motor Corporation.	2016 Mass production began
	Establishment of Automotive Solution Center	—	The Automotive Solution Center was newly organized in the Technical Development Group. A director was placed in charge of the Center, which aims to promote rapid decision-making and companywide strategies for automotive weight savings.	Apr. 2017 Established the center
	Expansion of facilities for aluminum forged suspension products (Kobelco Aluminum Automotive Products, LLC)	USA	The expansion plan is to meet the rising demand in North America for aluminum forged suspension products. Kobe Steel anticipates that automakers in the U.S. will use aluminum forged suspension products in a wider range of vehicles.	2018 Autumn New facilities to start up
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
	After receiving approval, began mass production of titanium alloy forgings for large GE jet engine	—	Received approval as a supplier of titanium alloy forged parts (shafts) for large commercial GE jet engine	Aug. 2016 Received certification Began mass production
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
	Binary cycle power generation system for ships completes sea trials	Japan	Kobe Steel, ASAHI SHIPPING CO., LTD. And MIURA CO., LTD. undertook joint development of a binary cycle power generation system for ships. Electricity is generated from the exhaust heat emitted by the ship's turbocharger. This system is the first in the world for ships and the largest scale of power generation from exhaust heat on a ship.	Apr. 2014 Development began Sep. 2015 Land-based testing was completed Dec. 2016 Sea trials passed Mar. 2017 Approval from Japan's ship classification society Nippon Kaiji Kyokai received Apr. 2019 sales starts



ECO WAY

【Machinery】 Initiatives in the Fields of Energy and Infrastructure

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
	HyAC mini-A all-in-one, compact compressor package for hydrogen refueling stations in the US	USA	Kobe Steel has started marketing of the HyAC mini-A, an all-in-one, compact compressor package for stationary hydrogen refueling stations designed for use in the United States. It consists of a high-pressure hydrogen compressor and a refrigerator sold together with a high-pressure storage tank unit and a dispenser as a set. Kobe Steel is the first company in Japan to sell hydrogen compressors for hydrogen refueling stations overseas.	Feb. 2017 Sales began
	Binary power generation system for Toyako spring in Hokkaido	Japan	Our binary power generation system, a high-efficiency and compact package, was provided for a geothermal energy utilization project in Toyako-cho in Hokkaido.	Mar. 2017 Order received
	Acquisition of Swedish isostatic press manufacturer Quintus Technologies	Sweden	Kobe Steel acquired Swedish company Quintus Technologies AB, the world leader in isostatic presses, which are widely applicable in the manufacture of high-performance products, such as aircraft parts, power generation turbine and semiconductor materials. Kobe Steel aims to increase the profitability of its Industrial Machinery Division.	Apr. 2017 Acquisition completed
Construction Machinery	New excavator plant (Kobelco Construction Machinery U.S.A. Inc.)	USA	Strengthen response to meet market needs; reduce manufacturing lead time	Mar. 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	Apr. 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	Jun. 2016 Order received 2016-2019 Construction of facility 2019-2039 Facility operation
	Received order to construction and operate a wide-area waste treatment plant	Japan	To handle a wide variety of waste, a stoker-type incineration furnace will be used for safe, stable incineration. Low excess air combustion and high-efficiency power generation contribute to lowering the environmental burden.	Dec. 2016 Order received 2016-2022 Construction of facility 2022-2042 Facility in operation



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【Electric Power】 Initiatives for Stable Profitability in the Electric Power Supply Business

Field	Project	Country	Description	Schedule
Electric Power	Nos. 1 & 2 units at Kobe (Kobelco Power Kobe, Inc.)	Japan	Pulverized coal-fired, supercritical pressure power generation equipment, started from 2002. New contracts were formed as current contracts are ending. Capacity: 1.4 mil. kW (700,000 kW × 2)	Apr. 2002 No. 1 unit starts up Apr. 2004 No. 2 unit starts up [Starts of new contracts] No.1 unit: from Apr. 2017 No.2 unit: from Apr. 2019
	Nos. 1 & 2 units at Moka (Kobelco Power Moka, Inc.)	Japan	Japan's first full-scale inland power station. Will have one of Japan's highest levels of generation efficiency. Method is gas turbine combined cycle, using city gas as fuel. Capacity: 1.248 mil. kW (624,000 kW X 2)	Jun. 2016 Construction began 2H 2019 No. 1 Unit starts up 1H 2020 No. 2 Unit starts up
	Nos. 3 & 4 units at Kobe (provisional name: Kobe Works Thermal Power Plant)	Japan	To feature cutting-edge coal-fired, ultra-supercritical generation equipment Capacity: 1.3 mil. kW (650,000 kW x 2)	FY2021 No. 3 unit to start up FY2022 No. 4 unit to start up



Core Values of KOBELCO

- 1. We provide technologies, products and services that win the trust and confidence of our customers we serve and the society in which we live.**
- 2. We value each employee and support his and her growth on an individual basis, while creating a cooperative and harmonious environment.**
- 3. Through continuous and innovative changes, we create new values for the society of which we are a member.**

